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Linda McCulloch  
Superintendent

DATE: August 5, 2002

TO: School Food Authority (SFA) Administrators

FROM: Christine Emerson, Director  
School Nutrition Programs

SUBJECT: Capital Expenditure Thresholds and Depreciation

The U.S. Department of Agriculture (USDA) recently issued guidance on capitalized equipment and depreciation in response to questions received on this subject. This memo summarizes the USDA's guidance.

The definition of equipment under Child Nutrition Programs is an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the organization for the financial statement purposes, or \$5000. An organization may establish a lower threshold for equipment, such as \$1000, but may not exceed \$5000.

School districts are audited primarily against the governmental accounting model prescribed by the Governmental Accounting Standards Board (GASB) Statement 34 (Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments). The GASB is the standard setting body for public school districts and for state and local governments.

The accounting model required by GASB 34 is a full accrual model. A full accrual model is one in which the equipment is set up as an asset and expensed over the period of time in which it is to be used. Depreciation is used to determine the annual benefit the school district gets from using the equipment in its operations. Straight-line depreciation is the recommended method to compute annual depreciation expenses. To determine straight-line depreciation, divide the equipment's acquisition cost by the number of years in its useful life.

If SFA officials are concerned that straight line depreciation does not accurately represent the expenses of operating the equipment, SFAs may consult their auditors; consult a food service trade association; consult the equipment's manufacturer(s); and/or hire a consultant to help them determine which method of calculating depreciation will more accurately represent the expenses of their organization.

If you have any additional questions, please contact Holly Humphrey, School Nutrition Programs Specialist at e-mail: [hhumphrey@state.mt.us](mailto:hhumphrey@state.mt.us) and phone: (406) 444-4413.

